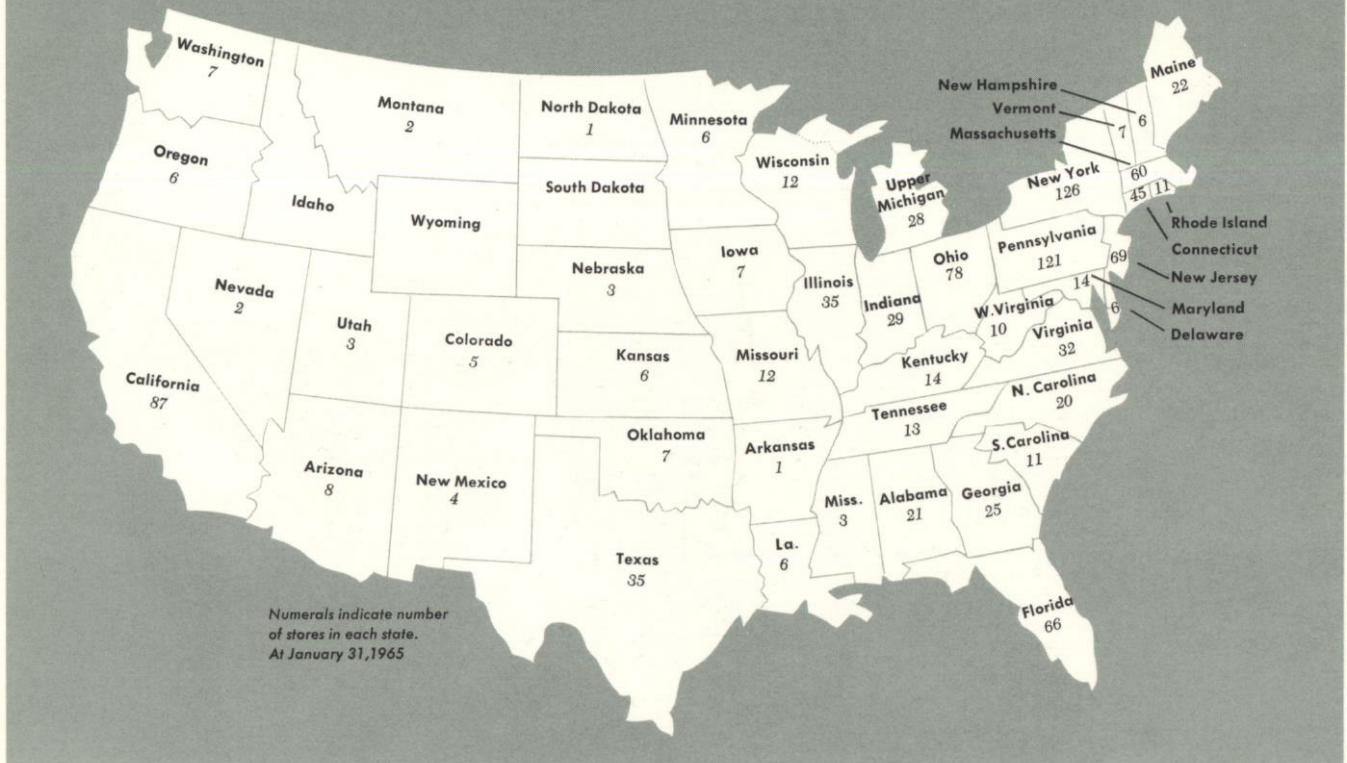




W.T. GRANT COMPANY

Annual Report / 1964

1,092 W. T. GRANT FRIENDLY FAMILY STORES IN 45 STATES



The W. T. Grant Company / A BRIEF DESCRIPTION

The Company started with one store at Lynn, Mass. in 1906. On January 31, 1965, it was operating 1,092 general merchandise stores in 45 states. In addition, 4 distribution centers were servicing the stores.

The stores are family type stores selling merchandise lines for women, for men, for children, and for the home.

While most sales are for cash, credit sales accounted for 18% of total sales in 1964.

In 1964, total sales were \$769,921,000, a new all-time high for a year. Except for 1932, 1938, and 1949, the Company has had a sales increase every year in its 58 year history.

The Company has earned a profit and has paid dividends in every year of its history.

The Company is maintaining a steady program of growth. In recent years, it has been

directed almost entirely to leased shopping center stores. At the last year end, 732 of the 1,092 stores were in shopping centers.

The Company employed an average of 46,500 people during the year, with a peak of approximately 57,000 in December.

The Company's capitalization includes 150,000 shares of 3¾% preferred stock held by 719 stockholders, and 5,964,481 shares of common stock held by 15,771 stockholders.

The Company has a long term debt represented by \$35,000,000 of 4¾% Sinking Fund Debentures sold to the public in January 1962.

Besides its domestic operations, the Company owns 51% of the common stock of Zeller's Ltd., a Canadian chain operating 103 stores similar to Grant stores, with 1964 sales of \$86,036,000.

W. T. Grant Company

FOUNDED IN 1906 AT LYNN, MASS.
EXECUTIVE AND BUYING OFFICES
1441 BROADWAY, NEW YORK, N. Y. 10018

DIRECTORS

WILLIAM T. GRANT
Chairman

EDWARD STALEY
Vice Chairman

JOHN G. BYLER

JOSEPH W. CHINN

HOWLAND S. DAVIS

HOWARD E. EADES

RAYMOND H. FOGLER

JOHN D. GRAY

THOMAS P. JERMAN

JAMES G. KENDRICK

M. F. KETZ

PETER KILBURN

JOSEPH A. LIVOLSI

LOUIS C. LUSTENBERGER

CLARENCE J. MYERS

DR. CHARLES F. PHILLIPS

R. W. ROSEVEAR

ASA T. SPAULDING

OFFICERS

W. T. GRANT
Chairman of the Board

EDWARD STALEY
Vice Chairman of the Board

LOUIS C. LUSTENBERGER
President

M. F. KETZ
Financial Vice President

R. W. ROSEVEAR
Merchandise Vice President

HOWARD E. EADES
*Research and Personnel
Vice President*

JOSEPH A. LIVOLSI
Store Management Vice President

JAMES G. KENDRICK
Sales Vice President

RICHARD W. MAYER
Vice President and Treasurer

EDWARD G. MILBURN
Vice President and Comptroller

HERBERT T. WILKINSON
Pittsburgh Region Vice President

JOHN P. DANE, JR.
*New England Region
Vice President*

PHILIP J. RODILOSSO
Central Region Vice President

JOSEPH T. REYNOLDS
Eastern Region Vice President

JAMES F. MCGRATH
Southern Region Vice President

RICHARD K. CARRIGAN
Western Region Vice President

S. E. ZIMMERMAN
Secretary and General Counsel

ROBERT J. KELLY
Assistant Secretary

ROSALIE A. MULFORD
Assistant Treasurer

ALLAN E. LOMEN
Assistant Comptroller

Transfer Agent: MORGAN GUARANTY TRUST COMPANY, NEW YORK, N. Y.
Registrar: BANKERS TRUST COMPANY, NEW YORK, N. Y.

CONTENTS

The Story in Brief	2	Notes to Financial Statements and Accountants' Report	9
Letter to Stockholders	3-4	5 Year Statement of Operations	10
Statement of Operations	5	5 Year Statement of Financial Position	11
Statement of Financial Position	6-7	Historical Record 1907-1964	12
5 Year Source and Disposition of Funds	8	1964 and Ten Years Ago	<i>inside back cover</i>

The Story in Brief

	1964	1963
Sales	\$769,921,172	\$698,673,072
Net earnings	\$ 22,526,003	\$ 11,281,848
Per common share	\$3.68	\$1.82
Dividends paid per preferred share	\$3.75	\$3.75
Dividends paid per common share	\$1.20	\$1.20
Total dividends paid	\$ 7,672,137	\$ 7,610,666
Earnings retained in the business	\$ 14,853,866	\$ 3,671,182
Depreciation and amortization	\$ 6,997,938	\$ 6,983,403
Capital expenditures	\$ 5,262,000	\$ 5,750,000
Employee compensation and benefits	\$151,791,996	\$140,805,455
Cents per sales dollar	19.7¢	20.2¢
Merchandise inventories	\$140,715,930	\$130,551,578
Working capital	\$162,949,417	\$138,500,651
Net fixed assets	\$ 39,232,314	\$ 41,275,899
Long term debt	\$ 35,000,000	\$ 35,000,000
Common shares outstanding	5,964,481	5,897,281
Book value common stock—per share	\$24.58	\$22.10
Number of preferred stockholders	719	758
Number of common stockholders	15,771	16,480
Number of stores	1,092	1,081

THE STORE GROWTH PROGRAM/1960 THROUGH 1964

Year	Number New Stores Opened		Number Stores Relocated or Enlarged	Capital Expenditures
	Shopping Centers	Downtown Locations		
1964	29	—	14	\$ 5,262,000
1963	72	—	9	5,750,000
1962	112	—	9	7,478,000
1961	112	1	10	7,855,000
1960	77	1	13	7,995,000
Totals	402	2	55	\$34,340,000

To the Stockholders:

In this fifty-eighth annual report for the fiscal year ended January 31, 1965, we are pleased to inform you that the year was the best in the Company's history. Both sales and net earnings reached all-time highs. Sales increased 10.2% and net earnings, 99.7% over the preceding year.

SALES — The year's sales were \$769,921,172, including all-time high credit sales of \$138,385,594 which were 19.1% above a year ago, and accounted for 18% of total sales.

EARNINGS — Net earnings for the year were \$22,526,003 which, after preferred stock dividends, equalled \$3.68 per share on 5,964,481 shares of common stock outstanding at the year end.

In 1963, net earnings were \$11,281,848, or \$1.82 per share on 5,897,281 shares of common stock outstanding at the year end.

The 1964 earnings exceeded the previous record high earnings of 1959 when they were \$12,257,940, or \$2.06 per common share.

Beginning in 1964, the Company decided to include in its net earnings, not only dividends received from Zeller's Ltd., its 51% owned unconsolidated Canadian subsidiary, but also the increase in its equity in the subsidiary. The 1964 net earnings include \$866,003, or 15 cents per common share for this item. The 1963 net earnings have been restated to reflect that year's increase in equity which amounted to \$287,899, or 5 cents per common share. For comparative purposes, historical data in this report have been revised for prior four years to reflect this change.

The excellent improvement in the 1964 net earnings reflects better performance in all phases and all areas of the Company's operations, in addition to the fact that 1964 was a fine year for the retail trade, with good weather conditions prevailing generally throughout the year. There was the improvement in sales and also in merchandise margins, resulting from continued good inventory management; we maintained an aggressive sales promotion program throughout the year, with particular emphasis on high quality private brand merchandise; and expense ratios to sales were lower in all the principal elements of the expense structure.

The Company's credit operations also played an important part in the improved earnings, contributing sales of \$138,385,594, an increase of 19.1% on top of the 1963 increase of 19.2% over 1962. Credit sales accounted for 18% of total sales compared to 16.2% in 1963.

It is of interest also to note that stores opened in large numbers in 1961, 1962, and 1963 turned in excellent results and improvements in 1964; and also that the 29 new stores opened in 1964, in the

aggregate, had net earnings for the year, and thereby more than offset their preopening expenses, which is an unusually fine performance.

The substantial improvement in net earnings can be summed up as the result of fine performance by our people in all areas of the business, producing a gratifying increase in pre-tax margin to 5.5% of sales from 3.3% in 1963. The provision for federal income taxes benefited from both the reduced corporation tax rates of 1964 and reductions due to investment credits and other miscellaneous adjustments, and thereby also contributed to the year's net earnings.

DIVIDENDS — During 1964, regular dividends of \$3.75 per share were paid on the preferred stock, and \$1.20 per share on the common stock, the same as in 1963.

At its February 23, 1965 meeting, the Board of Directors increased the quarterly common dividend payable April 1, 1965 to 40 cents per share from the 30 cents per share paid in 1964. On an annual basis, this is equivalent to \$1.60 per share, or an increase of 33 $\frac{1}{3}$ % over the \$1.20 paid in 1964. This is the fifth time in the past eleven years that the common dividend has been increased.

In 1964, the Company continued its record of earning a profit and paying dividends in every year of its 58 year history.

FINANCIAL COMMENTS — Working capital at the year end was \$162,949,417 which compares with \$138,500,651 at the end of 1963.

Merchandise inventories in stores, distribution centers, and in transit totalled \$140,715,930, which is 7.8% above the \$130,551,578 at the end of 1963, and in good relationship to sales. The major portion of the increase is in new and enlarged stores and in imported merchandise in transit. Merchandise turnover in 1964 was the best in the past five years.

The 1964 return on net worth is 13.8% compared with 7.7% in 1963, and is the best since 1946.

At the end of 1964, installment receivables from customers were \$110,025,228, of which \$56,935,089 had been sold to banks, and the balance of \$53,090,139 was owned by the Company. A year ago, the receivables totalled \$85,919,542, of which \$61,113,869 had been sold to banks, and the balance of \$24,805,673 was owned by the Company.

GROWTH PROGRAM — In 1964, the Company opened 29 new shopping center stores, compared to 72 in 1963. The average size of the 1964 stores was 16% larger than that of the 1963 stores. In addition, the 1964 program included 14 enlarged stores and two stores reopened after fires, which compares with seven enlarged and two fire restoration stores in 1963.

In 1964, the Company also converted eleven small

stores to Diskay Discount Marts. At the year end, there were 20 Diskay stores in operation. Present plans anticipate conversion of 18 more small stores to Diskay in 1965.

During the year, 18 small stores were permanently closed, mostly as leases expired. All but two of the stores were downtown units. As leases expire, it is the Company's policy to close stores that are unprofitable or inadequate for the broadened lines of merchandise offered today.

At the year end, there were 1,092 stores, including 732 in shopping centers. A year ago, there were 1,081 stores, including 705 in shopping centers.

The 1964 capital expenditures were \$5,262,000, principally for store fixtures, which compares with \$5,750,000 in 1963.

This year 35 new shopping center stores and 22 enlarged stores are planned. These stores will average 27% larger in size than those opened in 1964, and involve capital expenditures of approximately \$8,000,000.

Beyond 1965, the Company plans to continue its aggressive growth program of new and larger stores.

PERSONNEL AND ORGANIZATION — At the year end, there were approximately 44,000 employees compared to 42,000 a year ago.

In 1964, salaries, wages, social security taxes, retirement plan contributions, and other benefits totalled \$151,791,996, or 19.7% of sales. In 1963, they totalled \$140,805,455, or 20.2% of sales. These totals include social security taxes of \$7,473,396 in 1964 and \$7,430,202 in 1963; and contributions to the retirement plan of \$417,604 in 1964 and \$619,367 in 1963.

In 1964, the Company's growth program continued to offer opportunities to its people, making possible the promotion of 135 assistant store managers to store management, and the promotion of 269 store managers to larger stores.

In anticipation of an aggressive growth program and its manpower needs, the Company had, at the year end, 1,041 men-in-training for future store managers and executives.

At the June 23, 1964 Board of Directors' meeting, Asa T. Spaulding, President of North Carolina Mutual Life Insurance Company, was elected a Director of the Company.

Charles W. Rivoire, Secretary, retired during the year under the terms of the Employees' Retirement

Plan, after 32 years of fine service to the Company. Stanley E. Zimmerman was elected Secretary and General Counsel.

The following regional managers were elected Regional Vice Presidents: John P. Dane, Jr., New England Region; Philip J. Rodilosso, Central Region; Joseph T. Reynolds, Eastern Region; James F. McGrath, Southern Region; and Richard K. Carrigan, Western Region.

It is with deep regret that the Company records the death in March 1965 of Mr. Albert E. Kelly, Financial Advisor to Mr. Grant, and a member of the Board of Directors since 1959.

ZELLER'S LIMITED — Zeller's, the Canadian affiliate with 103 stores similar to Grant Stores, which is 51% owned by the Grant Company, also had its best year in history.

Its 1964 sales reached an all-time high of \$86,035,558, or 16.3% above a year ago.

Its 1964 net earnings reached an all-time high of \$3,063,862, or 95 cents per common share, which compares with \$2,139,010, or 64 cents per common share in 1963. The previous all-time high earnings totalled \$2,139,048, or 64 cents per share in 1960.

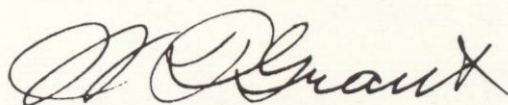
In May 1964, Zeller's split its common stock 4 for 1. The 1964 dividends paid on common stock totalled 40 cents per share, compared to 35 cents paid in 1963.

The quarterly common stock dividend payable May 3, 1965 has been increased from 10 cents to 12½ cents per share, which is equivalent to an annual rate of 50 cents per share, compared to the 40 cents paid in 1964.

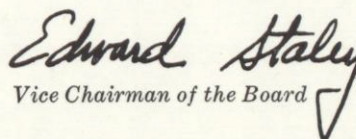
All the above amounts are in Canadian dollars.

The Company is most grateful to its employees, and to its customers and suppliers for their contributions that made 1964 its best year. We also extend a welcome to new stockholders, and appreciate the continued loyalty of our other stockholders.

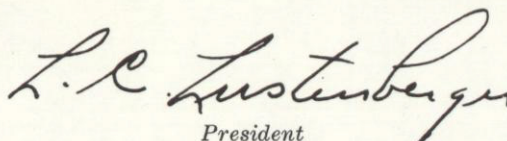
For 1965, we expect a good year, with continuation of a steady growth program. There are opportunities for improvement over the records of 1964, and we believe that we are in excellent position to take advantage of them.



Chairman of the Board



Vice Chairman of the Board



President

statement of operations/ W. T. GRANT COMPANY

Year ended January 31,

	1965	1964
SALES	\$769,921,172	\$698,673,072
Income from concessions	1,351,091	1,114,198
	<u>\$771,272,263</u>	<u>\$699,787,270</u>
Cost of merchandise sold, buying and occupancy costs	536,639,600	493,772,308
	<u>\$234,632,663</u>	<u>\$206,014,962</u>
Selling, general and administrative expenses	189,170,680	179,129,728
	<u>\$ 45,461,983</u>	<u>\$ 26,885,234</u>
ADD:		
Increase in equity in Zeller's Limited—Note A	866,003	287,889
Dividends received from Zeller's Limited	555,569	498,335
Interest earned	173,053	148,058
Other income	165,073	149,091
	<u>\$ 1,759,698</u>	<u>\$ 1,083,373</u>
	<u>\$ 47,221,681</u>	<u>\$ 27,968,607</u>
DEDUCT:		
Interest expense	4,164,072	4,724,523
Other deductions	331,606	302,236
	<u>\$ 4,495,678</u>	<u>\$ 5,026,759</u>
	<u>\$ 42,726,003</u>	<u>\$ 22,941,848</u>
EARNINGS BEFORE FEDERAL TAXES ON INCOME	\$ 42,726,003	\$ 22,941,848
PROVISION FOR FEDERAL TAXES ON INCOME:		
Current	13,590,000	5,422,000
Deferred	6,610,000	6,238,000
	<u>\$ 20,200,000</u>	<u>\$ 11,660,000</u>
	<u>\$ 22,526,003</u>	<u>\$ 11,281,848</u>
NET EARNINGS FOR THE YEAR—Note A	\$ 22,526,003	\$ 11,281,848
DEDUCT:		
Cash dividends:		
On 3¾% Cumulative Preferred Stock:		
Four quarterly dividends of 93¾¢ each per share	562,506	562,506
On Common Stock:		
Four quarterly dividends of 30¢ each per share	7,109,631	7,048,160
TOTAL DIVIDENDS	<u>\$ 7,672,137</u>	<u>\$ 7,610,666</u>
EARNINGS FOR THE YEAR RETAINED FOR USE IN THE BUSINESS	\$ 14,853,866	\$ 3,671,182
ADD:		
Earnings of prior years retained for use in the business	96,170,731	92,499,549
ACCUMULATED EARNINGS RETAINED FOR USE IN THE BUSINESS AT END OF THE YEAR—Note A	<u>\$111,024,597</u>	<u>\$ 96,170,731</u>

(See notes to financial statements.)

W. T. Grant Company

|—— January 31, ——|

ASSETS	1965	1964
CURRENT ASSETS		
Cash	\$ 30,970,373	\$ 31,424,424
Short term securities	7,996,014	4,998,542
Accounts receivable:		
Customers' installment accounts not sold	53,090,139	24,805,673
Equity in customers' installment accounts (\$56,935,089 and \$61,113,869, respectively) sold	5,693,510	6,111,388
	<u>\$ 58,783,649</u>	<u>\$ 30,917,061</u>
Less allowance for doubtful accounts	4,407,045	3,511,852
	<u>\$ 54,376,604</u>	<u>\$ 27,405,209</u>
Other accounts receivable, claims, etc.	2,903,394	2,666,556
Total accounts receivable, net	<u>\$ 57,279,998</u>	<u>\$ 30,071,765</u>
Merchandise inventories (including merchandise in transit)— at the lower of cost or market determined principally by the retail inventory method	<u>140,715,930</u>	<u>130,551,578</u>
TOTAL CURRENT ASSETS	<u>\$236,962,315</u>	<u>\$197,046,309</u>
OTHER ASSETS		
Investment in Zeller's Ltd., at equity—Note A	9,549,534	8,525,522
Cash surrender value of life insurance	2,509,656	2,464,139
Sundry receivables and deposits	549,215	796,142
TOTAL OTHER ASSETS	<u>\$ 12,608,405</u>	<u>\$ 11,785,803</u>
COMMON STOCK OF W. T. GRANT COMPANY		
At cost, held for Deferred Contingent Compensation Plan (50,200 and 43,800 shares, respectively)—Note B	1,036,640	850,857
STORE PROPERTIES, FIXTURES, AND IMPROVEMENTS— on the basis of cost		
Buildings	191,910	191,910
Furniture and fixtures	67,218,999	69,021,577
Improvements to leased properties	11,596,188	11,562,722
	<u>\$ 79,007,097</u>	<u>\$ 80,776,209</u>
Less allowance for depreciation and amortization	39,894,783	39,838,810
	<u>\$ 39,112,314</u>	<u>\$ 40,937,399</u>
Land	120,000	338,500
TOTAL STORE PROPERTIES, FIXTURES, AND IMPROVEMENTS	<u>\$ 39,232,314</u>	<u>\$ 41,275,899</u>
DEFERRED CHARGES		
Prepaid taxes, rents and insurance, supplies, etc	2,531,801	2,376,827
UNAMORTIZED DEBT EXPENSE		
	<u>432,705</u>	<u>462,374</u>
	<u>\$292,804,180</u>	<u>\$253,798,069</u>

statement of financial position

|----- January 31, -----|

LIABILITIES, RESERVES, AND CAPITAL

CURRENT LIABILITIES

Accounts payable:

Trade and sundry	\$ 37,850,620	\$ 37,653,848
Managers bonuses	5,175,267	3,650,815
Executives, buyers, and supervisors bonuses	3,119,785	1,826,452
Payroll taxes and taxes withheld from employees compensation	5,819,151	3,092,031
	\$ 51,964,823	\$ 46,223,146

Accrued expenses:

Taxes other than federal taxes on income	2,542,177	2,086,916
Rent, salaries and wages, etc.	7,333,983	4,900,325
	\$ 9,876,160	\$ 6,987,241

Federal taxes on income—Note C	12,171,915	5,335,271
TOTAL CURRENT LIABILITIES	\$ 74,012,898	\$ 58,545,658

LONG TERM DEBT—Note D	35,000,000	35,000,000
---------------------------------	------------	------------

DEFERRED FEDERAL TAXES ON INCOME—Note C	15,873,000	9,263,000
---	------------	-----------

RESERVES

For uninsured risks	1,500,000	1,400,000
For repainting stores	1,886,830	1,774,644
For deferred contingent compensation	1,020,400	880,967
TOTAL RESERVES	\$ 4,407,230	\$ 4,055,611

CAPITAL—Notes A, B, D, and E:

Capital Stock

Cumulative Preferred—\$100 par value:

Authorized 250,000 shares		
Issued 150,000 shares of 3¾% series	15,000,000	15,000,000

Common—\$2.50 par value:

Authorized 8,500,000 shares		
Issued 6,014,681 and 5,941,081 shares, respectively	15,036,703	14,852,702
Capital paid-in in excess of par value of shares issued	21,751,283	20,284,195

Amounts paid by officers and employees under purchase contracts for 466,105 and 432,895 shares, respectively, of unissued Common Stock	698,469	626,172
	\$ 37,486,455	\$ 35,763,069

Earnings retained for use in the business	111,024,597	96,170,731
TOTAL CAPITAL	\$163,511,052	\$146,933,800

LONG TERM LEASES—Note F

	\$292,804,180	\$253,798,069
--	---------------	---------------

(See notes to financial statements.)

statement of source and disposition of funds

(amounts in 000's)

(years which end January 31 of subsequent years)	1964	1963	1962	1961	1960	TOTAL 5 Years
WHERE FUNDS CAME FROM						
SALES	\$769,921	\$698,673	\$686,262	\$574,501	\$512,687	\$3,242,044
LESS:						
Merchandise costs, supplies, outside services, etc.	530,790	491,938	496,149	407,539	356,860	2,283,276
Wages and salaries, including miscellaneous benefits	143,901	132,756	123,462	107,224	97,336	604,679
Retirement plan contributions	418	619	875	648	908	3,468
Social security taxes on payrolls	7,473	7,430	6,868	5,249	4,459	31,479
Rents to landlords less rentals on subleases .	31,542	29,703	27,825	23,854	21,401	134,325
Federal, state and local taxes, excluding social security taxes	27,139	18,250	15,297	15,087	16,262	92,035
Depreciation and amortization	6,998	6,983	6,782	6,541	6,263	33,567
NET INCOME FROM OPERATIONS (excluding in- crease (decrease) in equity in Zeller's Ltd.) . .	\$ 21,660	\$ 10,994	\$ 9,004	\$ 8,359	\$ 9,198	\$ 59,215
Add charges against income which involve no cash outlay:						
Depreciation and amortization	6,998	6,983	6,782	6,541	6,263	33,567
Net increase in reserves	352	237	215	317	123	1,244
Deferred federal income tax	6,610	6,238	2,221	432	310	15,811
From sale of common stock to employees	1,723	1,094	929	1,214	1,487	6,447
From sale of debentures	—	—	—	35,000	—	35,000
From sale of land and buildings	219	—	18	146	—	383
From decrease in sundry accounts—net	76	1,435	880	—	—	2,391
TOTAL FUNDS PROVIDED	<u>\$ 37,638</u>	<u>\$ 26,981</u>	<u>\$ 20,049</u>	<u>\$ 52,009</u>	<u>\$ 17,381</u>	<u>\$ 154,058</u>
HOW FUNDS WERE USED						
For dividends to stockholders	\$ 7,672	\$ 7,611	\$ 7,560	\$ 7,502	\$ 7,429	\$ 37,774
For investment in land and buildings	—	—	—	—	318	318
For investment in furniture and fixtures	4,807	5,306	7,272	7,577	7,596	32,558
For investment in improvements to leased properties	366	346	—	71	284	1,067
For investment in Zeller's Limited	158	67	42	—	—	267
For purchase of common stock for deferred compensation plan	186	82	136	6	126	536
For increase in sundry accounts—net	—	—	—	877	620	1,497
Funds added to working capital	24,449	13,569	5,039	35,976	1,008	80,041
TOTAL FUNDS USED	<u>\$ 37,638</u>	<u>\$ 26,981</u>	<u>\$ 20,049</u>	<u>\$ 52,009</u>	<u>\$ 17,381</u>	<u>\$ 154,058</u>

Note A — The Company has adopted a policy of carrying the investment in Zeller's Limited (approximately 51% owned Canadian subsidiary) at equity and of including in net earnings its equity in the earnings of that company. The Company's former policy was to carry the investment at cost and the dividends received from such company in the net earnings. The financial statements for the years ended January 31, 1961 through 1964 have been restated to reflect the new policy. The cost of the investment in Zeller's Limited was \$7,607,608 at January 31, 1965.

Note B — The amount shown for the reserve for deferred contingent compensation at January 31, 1965 represents (a) to the extent that allotments are contingently distributable in Common Stock of the Company, an amount equivalent to the cost to the Company of 49,253 shares of its Common Stock held for this purpose; and (b) the total remaining in participants' contingent cash allotments. For the year ended January 31, 1965, the amount charged to earnings for this Plan was \$170,000.

Note C — Gross profits on sales on the installment basis are reflected in the financial statements when the sales are made, whereas, for federal income tax purposes such gross profits are reported as income as collections are received. At January 31, 1965, approximately \$21,500,000 of such gross profit has been deferred for tax purposes.

The Company has continued to apply "guideline" depreciation rates and to use accelerated methods in determining depreciation deductions for federal income tax purposes while recording depreciation on the straight-line method utilizing the same rates for financial statements as in prior years. At January 31, 1965, depreciation of approximately \$10,680,000 has been deducted for tax purposes in excess of the deduction in the financial statements.

The related federal income taxes pertaining to each of the above have been included in the provision for deferred taxes. Investment credit totalling approximately \$645,000 has been deducted from the provision for federal income taxes. Federal income tax returns of the Company have

been examined by the Internal Revenue Service through January 31, 1963.

Note D — Long-term debt consists of 4% Sinking Fund Debentures dated January 1, 1962 and due January 1, 1987. The indenture provides, among other things, for certain limitations with respect to the declaration of cash dividends, acquisition or disposition of capital stock, and the incurrence of long-term indebtedness. Sinking Fund payments begin January 1, 1969 at the annual rate of \$1,500,000. At January 31, 1965, approximately \$40,000,000 of earnings retained for use in the business was free for payment of cash dividends.

Note E — The 3% Cumulative Preferred Stock is redeemable at the Company's option in whole or in part at \$100 per share plus accrued dividends to date of redemption.

At January 31, 1965, 555,155 shares of the Company's unissued Common Stock were reserved under the Employees' Stock Purchase Plans. Contracts for the sales of such shares, on a deferred payment basis, are made at approximate market prices at dates of contracts. Shares are issued after completion of payments. In addition to the shares reserved under these Plans, the only other shares of Capital Stock reserved for options, warrants, conversions, and other rights are shares of issued Common Stock held as explained in Note B.

Note F — At January 31, 1965, the Company was lessee of real property under 1,102 leases expiring subsequent to January 31, 1968, at aggregate minimum annual rentals of approximately \$29,525,000 (exclusive of taxes and other expenses payable under terms of certain of the leases). This amount includes approximately \$23,408,000 for minimum annual rentals under 865 leases which were on a percentage of sales basis with specified minimum annual rentals, but does not include any amount for 12 leases which were on a percentage of sales basis without any specified minimum annual rentals.

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS
W. T. GRANT COMPANY
NEW YORK, N. Y. 10018

We have examined the statement of financial position of the W. T. Grant Company at January 31, 1965, and the related statement of operations for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of financial position and operations present fairly the financial position of W. T. Grant Company at January 31, 1965, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year restated as explained in Note A of notes to financial statements. It is also our opinion that the accompanying statement of source and disposition of funds for the year ended January 31, 1965 presents fairly the information shown therein.

New York, N. Y.
March 17, 1965

ERNST & ERNST

comparative statement of operations

(Years which end January 31 of subsequent years)

	1964	1963	1962	1961	1960
SALES	\$769,921,172	\$698,673,072	\$686,262,689	\$574,501,798	\$512,686,823
Income from concessions	1,351,091	1,114,198	850,775	600,502	505,531
	<u>\$771,272,263</u>	<u>\$699,787,270</u>	<u>\$687,113,464</u>	<u>\$575,102,300</u>	<u>\$513,192,354</u>
LESS:					
Cost of merchandise sold, buying and occupancy costs	536,639,600	493,772,308	484,931,907	403,487,117	361,838,212
Selling, general and administrative expenses	189,170,680	179,129,728	180,566,895	152,720,131	131,422,041
	<u>\$ 45,461,983</u>	<u>\$ 26,885,234</u>	<u>\$ 21,614,662</u>	<u>\$ 18,895,052</u>	<u>\$ 19,932,101</u>
ADD:					
Increase (decrease) in equity in Zeller's Limited	866,003	287,889	81,113	(102,079)	173,000
Dividends received from Zeller's Limited	555,569	498,335	501,179	529,739	533,716
Interest earned	173,053	148,058	114,794	67,915	139,229
Other income	165,073	149,091	24,306	78,466	26,570
	<u>\$ 47,221,681</u>	<u>\$ 27,968,607</u>	<u>\$ 22,336,054</u>	<u>\$ 19,469,093</u>	<u>\$ 20,804,616</u>
DEDUCT:					
Interest expense	4,164,072	4,724,523	3,995,696	2,184,964	1,518,260
Other deductions	331,606	302,236	295,123	266,895	270,223
EARNINGS BEFORE FEDERAL TAXES ON INCOME	<u>\$ 42,726,003</u>	<u>\$ 22,941,848</u>	<u>\$ 18,045,235</u>	<u>\$ 17,017,234</u>	<u>\$ 19,016,133</u>
PROVISION FOR FEDERAL TAXES ON INCOME	20,200,000	11,660,000	8,960,000	8,760,000	9,645,000
	<u>\$ 22,526,003</u>	<u>\$ 11,281,848</u>	<u>\$ 9,085,235</u>	<u>\$ 8,257,234</u>	<u>\$ 9,371,133</u>
NET EARNINGS FOR THE YEAR					
DEDUCT:					
Preferred dividends	562,506	562,506	562,507	562,507	562,507
Common dividends	7,109,631	7,048,160	6,997,322	6,940,102	6,866,389
ADD:					
Earnings of prior years retained in the business	96,170,731	92,499,549	90,974,143	90,219,518	88,277,281
Accumulated earnings retained, at end of year	<u>\$111,024,597</u>	<u>\$ 96,170,731</u>	<u>\$ 92,499,549</u>	<u>\$ 90,974,143</u>	<u>\$ 90,219,518</u>

comparative statement of financial position

(at January 31 of subsequent years)

ASSETS:

Cash	1964	1963	1962	1961	1960
Short term securities	\$ 30,970,373	\$ 31,424,424	\$ 26,493,815	\$ 49,687,679	\$ 25,637,672
Accounts receivable—customers' installment accounts (net)	7,996,014	4,998,542	—	—	2,996,826
Accounts receivable—other	54,376,604	27,405,209	4,125,597	17,601,057	2,325,255
Merchandise inventories	2,903,394	2,666,556	2,914,548	2,567,880	1,943,821
TOTAL CURRENT ASSETS	140,715,930	130,551,578	141,046,594	112,885,170	96,243,818
Investment in Zeller's Limited—at equity	236,962,315	197,046,309	174,580,554	182,741,786	129,147,392
Cash surrender value of life insurance	9,549,534	8,525,522	8,170,205	8,046,904	8,148,983
Sundry receivables and deposits	2,509,656	2,464,139	2,415,184	2,363,920	3,292,245
Common stock of W. T. Grant Company held for deferred contingent compensation plan, at cost	549,215	796,142	738,001	857,337	911,108
Land and buildings (net)	1,036,640	850,857	768,424	632,995	627,329
Furniture and fixtures (net)	246,219	472,433	480,147	487,861	641,326
Improvements to leased properties (net)	34,967,593	36,592,084	37,744,657	36,668,189	34,993,088
Deferred charges	4,018,502	4,211,382	4,383,112	4,979,314	5,539,916
Unamortized debt expense	2,531,801	2,376,827	3,889,386	4,672,187	3,334,753
TOTAL ASSETS	432,705	462,374	492,043	521,346	—
	\$292,804,180	\$253,798,069	\$233,661,713	\$241,971,839	\$186,636,140

LIABILITIES, RESERVES, AND CAPITAL:

Accounts payable and accrued expenses	\$ 61,840,983	\$ 53,210,387	\$ 42,585,806	\$ 54,461,145	\$ 36,537,269
Federal taxes on income	12,171,915	5,335,271	7,063,676	8,388,685	8,694,088
TOTAL CURRENT LIABILITIES	74,012,898	58,545,658	49,649,482	62,849,830	45,231,357
Long term debt	35,000,000	35,000,000	35,000,000	35,000,000	—
Deferred federal income tax	15,873,000	9,263,000	3,025,000	804,000	372,000
Reserve for uninsured risks	1,500,000	1,400,000	1,400,000	1,400,000	1,400,000
Reserve for repainting stores	1,886,830	1,774,644	1,656,165	1,505,579	1,273,123
Reserve for deferred contingent compensation	1,020,400	880,967	762,010	697,562	613,400
CAPITAL:					
Preferred 3% stock \$100 par value	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Common stock	37,486,455	35,763,069	34,669,507	33,740,725	32,526,742
Earnings retained for use in the business	111,024,597	96,170,731	92,499,549	90,974,143	90,219,518
TOTAL LIABILITIES, RESERVES, AND CAPITAL	\$292,804,180	\$253,798,069	\$233,661,713	\$241,971,839	\$186,636,140

historical record/ 1907 THROUGH 1964

(Amounts in 000's)

(Amounts in 000's)

Year	No. of Stores	PRE-TAX EARNINGS		NET EARNINGS		DIVIDENDS		WORKING CAPITAL		FIXED ASSETS		NET WORTH	
		Total	Per Sales Dollar	Total	Per Dollar Share	Total	% of Net	Total	% Sales	Total	% Sales	Total	% Earned
1907	1	\$ 10	9.8¢	\$ 10	9.8¢	\$ 8	81.7	\$ 16	16.5	\$ 3	3.0	\$ 19	52.6
1912	12	26	1.9	26	1.9	32	121.9	179	13.2	132	9.7	315	8.3
1917	30	154	3.4	110	2.4	44	39.5	430	9.5	301	6.7	759	14.5
1922	50	708	4.6	611	4.0	173	28.2	1,803	11.7	1,403	9.1	3,261	18.7
1927	157	2,754	6.3	2,386	5.5	569	23.8	5,200	11.9	6,167	14.1	11,416	20.9
1932	446	1,849	2.5	1,612	2.2	1,195	74.2	9,704	13.3	16,101	22.0	25,155	6.4
1937	480	4,253	4.3	3,402	3.4	2,353	69.2	18,580	18.8	14,876	15.0	34,359	9.9
1942	493	9,684	6.3	3,762	2.4	2,014	53.5	22,449	14.6	19,052	12.4	41,046	9.2
1947	483	13,862	6.1	8,679	3.8	4,131	47.6	42,359	18.5	23,128	10.1	63,462	13.7
1952	493	18,895	6.7	7,570	2.7	4,165	55.0	43,077	15.2	35,203	12.4	84,744	8.9
1953	502	18,920	6.3	8,045	2.7	4,188	52.1	41,956	14.0	38,189	12.7	89,056	9.0
1954	520	18,585	5.9	8,755	2.8	4,211	48.1	46,553	14.7	38,245	12.1	94,118	9.3
1955	574	20,395	5.8	9,710	2.8	4,971	51.2	57,125	16.2	33,760	9.6	99,480	9.8
1956	632	18,493	4.9	8,938	2.3	5,496	61.5	57,808	15.2	36,795	9.7	103,565	8.6
1957	691	18,259	4.5	9,718	2.4	5,527	56.9	62,273	15.3	37,641	9.3	108,305	9.0
1958	739	20,165	4.7	9,850	2.3	5,553	56.4	64,037	14.8	37,710	8.7	113,193	8.7
1959	801	25,433	5.3	12,258	2.6	6,624	54.0	82,907	17.3	39,239	8.2	133,681	9.2
1960	864	19,016	3.7	9,371	1.8	7,429	79.3	83,916	16.4	41,174	8.0	137,746	6.8
1961	952	17,017	3.0	8,257	1.4	7,502	90.9	119,892	20.9	42,135	7.3	139,715	5.9
1962	1,032	18,045	2.6	9,085	1.3	7,560	83.2	124,931	18.2	42,608	6.2	142,169	6.4
1963	1,081	22,942	3.3	11,282	1.6	7,611	67.5	138,501	19.8	41,276	5.9	146,934	7.7
1964	1,092	42,726	5.5	22,526	2.9	7,672	34.1	169,949	22.1	39,232	5.1	163,511	13.8

highlights of growth/

W. T. GRANT COMPANY
1964 AND TEN YEARS AGO

	1964	1954	CHANGE IN TEN YEARS
GROWTH			
Number of shopping center stores	732	26	706
Number of downtown stores	360	494	(134)
Total number of stores	<u>1,092</u>	<u>520</u>	<u>572</u>
SALES			
Total sales	\$769,921,000	\$317,157,000	143%
Credit sales	138,386,000	19,695,000	603%
FINANCIAL ITEMS			
Net earnings	\$ 22,526,000	\$ 8,755,000	157%
Per common share	\$3.68	\$1.68	119%
Working capital	\$162,949,000	\$ 46,553,000	250%
Net fixed assets	\$ 39,232,000	\$ 38,245,000	3%
Total assets	\$292,804,000	\$119,218,000	146%
Long term debt	\$ 35,000,000	—	\$35,000,000
Net worth	\$163,511,000	\$ 94,118,000	\$69,393,000
% earned on net worth	13.8%	9.3%	4.5%
DIVIDENDS, SHARES, STOCKHOLDERS			
Dividends paid on preferred stock	\$ 563,000	\$ 563,000	—
Dividends paid on common stock	\$ 7,109,000	\$ 3,648,000	95%
Per common share	\$1.20	\$0.75	60%
Number of common shares	5,964,481	4,877,256	1,087,225
Number of common stockholders	15,771	5,852	9,919
EMPLOYEES AND COMPENSATION			
Number of employees at year end	44,000	24,600	19,400
Salaries, wages, and benefits	\$151,792,000	\$ 57,016,000	166%
Cents per sales dollar	19.7¢	18.0¢	1.7¢



Cleveland Public Library
325 Superior Ave., N. E.
Cleveland, Ohio



W. T. GRANT CO.
141 BROADWAY • NEW YORK, N. Y. 10018

BULK RATE
U. S. POSTAGE
PAID
New York, N. Y.
Permit No. 6846

1